

Keynote Address

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Business Opportunities Fair
Albany, Georgia

July 10, 1997

The last couple of years the Department of Defense has been faced — and will continued to be faced — with the problem of getting more for less cost. That is, finding the free lunch. Although many people believe there are no free lunches, I believe this is a mythical best day that haunts us still. Toyota, back in the 1960's, found a way to get a free lunch by being innovative, empowering their people ... *The Machine that Changed the World*, written by several MIT professors, published in 1990, tells that story. Toyota has continued to find new ways of doing things better. They are still the number one automobile manufacturer in the world, proving that we can work smarter and do more while spending less money.

This is the thrust of Acquisition Reform. We must find ways of working better and smarter to provide the operating forces with what they need with less cost. This requires a significant change — in the way we do business, the way we see ourselves and our functions, and the way we work with each other.

These are difficult changes to make. They take considerable time and effort on each of our parts. But in one sense we have no option. The way we do business has changed because the way commercial industry does business over the last 10-15 years. Twenty years ago DoD led 95% of the electronic design in this country, now we had about 2%. We can no longer heavily influence commercial design.

Our country has created world-class corporations capable of competing effectively throughout the world. The first challenge was quality. Now, quality is merely a ticket to enter the starting gate. Quick response, flexibility, innovation, affordability, and risk management are all natural parts of world-class companies. They must also become natural part of our acquisition workforce, which includes our primes, subs, support contractors and our customers, MARCOR, OPNAV and the Fleet.
learn.

I have a question for you : What is the biggest challenge we face in AR. Answer: the past. And to bring that point home, I'd like to read you a short passage from The Little Prince.

When he arrived on the planet he respectfully saluted the lamplighter.
“Good morning. Why have you just put out your lamp?”
“These are the instructions,” replied the lamplighter. “Good morning.”
“What are the instructions?”
“The instructions are that I put out my lamp. Good evening.”
And he lighted his lamp again.
“But why have you just lighted it again?”

*"These are the instructions," replied the lamplighter.
"I do not understand," said the little prince.
"There is nothing to understand," said the lamplighter. "Instructions are
instructions. Good morning."
And he put out his lamp.*

The Little Prince
ANTOINE DE SAINT-EXUPERY

One of the most cherished myths in education or any kind of training is that in order to learn a skill one must practice it to the point of doing it without thinking. Whether I ask colleagues concerned with higher education, parents of young children, or students themselves, everyone seems to agree on this approach to what are called the basics. Whether it is learning how to play baseball, drive, or teach, the advice is the same: practice the basics until they become second nature. I think this is the wrong way to start.

We all have difficulty giving up what we have learned in the past, or doing things differently. It's not easy. Change is risky and risk is scary.

The best solutions we see come from areas of private industry. Collectively, they involve a unique set of core competencies which include Integrated Product and Process Development, strategic cost management, team and organizational learning, systems dynamics and complexity, and knowledge management. Private industry has demonstrated the value of partnering — which is why we're here today — and the use of Integrated Product Teams to bring our functional expertise into the decision making process. Best commercial practices are driving our Department of Navy Acquisition Reform initiatives such as the move to performance based standards, the use of commercial and open systems architecture, and the Single Process Initiative.

Keeping the theme of change a constant in this speech, as it is in our everyday work lives, I'd like to focus on some aspects of government-industry partnering for a few minutes.

As most of you know, Dr. Kaminski, the former Principal Deputy Assistant Secretary of Defense for Acquisition and Technology, directed that the acquisition community use integrated product teams wherever practicable. The understanding behind this direction was the potential benefit that cross-functional and cross-organizational (including Industry) integrated product teams could insure the best balance of all areas of functional expertise in the decision making and implementation process. Since Dr. Kaminski's direction came out two years ago, we see widespread use of IPTs throughout the Navy - Marine Corps team with the larger ACAT I programs taking the lead. By getting people with different areas of expertise, and a common goal, to sit down and talk, solve problems, understand each other, and make decisions, we have been able to considerably improve the acquisition process.

Survey data validates this improvement .. from a Program Managers Assistance Group, from several OSD OIPT surveys, and from our DoN acquisition workforce surveys in May 1996 and March 1997. Responses all agree that the acquisition process is improving, and that teams are making a difference.

We should not conclude that because IPTs are doing good things that they should be used throughout the Navy at all levels, nor that they are the solution to our acquisition programs. They are part of a set of solutions to be applied where it makes sense.

Initiatives that are tied closely to government-industry partnering are Past Performance and Outsourcing. I'd like to touch on those and then talk for a moment about upcoming procurement policy.

DoD formed a Past Performance OIPT to develop a common approach across their business section. For Systems and Services DoD is moving towards a Contract Performance Assessment Reporting System (CPARS) approach which has been used by the Air Force for over 8 years. The narrative portion of the Assessment Reporting System will provide insight into contract performance and allow relevancy to be determined for particular source selections. All CPARS information is treated as Source Selection information in accordance with FAR 3.104. Navy will continue the use of red-yellow-green charts for operations support, adapt the DISA

system for Information Technology, and continue to use the tri-service system for construction and architectural engineering.

One way the Navy is supporting modernization and reducing operation costs is through the aggressive use of outsourcing. This isn't a new concept in the Government — it's been around for over 30 years. The new emphasis on Outsourcing, however, is budget driven and a sign of the nineties. In January 1997 the CNO announced the Navy Outsourcing Competition in which 10,665 positions and 146 activities will be looked at for outsourcing. These include Distribution Depot Operations [Warehousing, Physical Inventory, Receiving, Issuing, Preservation, Packaging]; Defense Re-utilization and Marketing Services [property re-utilization, and transfer, auctioneering, sales, disposal] and Inventory Control Points. A detailed message following the CNO's January announcement stated: "The Navy's Program Objectives Memorandum (POM) for Fiscal Year 1998 included a wedge projecting over \$3 billion in savings from outsourcing competitions. Outsourcing competitions must be initiated to meet the challenge posed by this ambitious, but achievable goal."

The Naval Facilities Systems Command and Naval Supply Systems Command are jointly staffing the Outsourcing Support Office established in Fall 1996 to accomplish this ambitious goal.

I'd like to talk shortly about new procurement policy in specifications and standards reform. Procurement offers an opportunity for cost savings; 90% of contract actions are procurement. When S&S policy came out in 1994, procurement was excluded from the mandatory implementation requirement. In November 1996, the Assistant Secretary of the Navy for Research, Development and Acquisition directed Program Managers to consider the cost effectiveness and value added from applying spec and standards reform to prospective contract actions for procurement of sub-systems, systems and platforms. The policy was not intended for component past procurement, but could be implemented for them as appropriate. New draft policy under consideration would cover all procurement actions over \$300K and would call for the PEO / SYSCOM / DRPM to develop implementation, to include an approval process, incentives for life cycle cost savings and metrics reporting. The draft policy is out for comment and is expected to be issued by the end of summer.

As significant changes continue to occur throughout our acquisition community, on almost a daily basis we must learn how to deal effectively with change, uncertainty, and instability. Change all ties back to learning ... to change we must learn how to learn. It may sound silly but this is critical.

Training and education are a subset of learning and are important to AR success. During the stand-down last May we received over 13,000 ideas from our Navy - Marine Corps acquisition workforce identifying barriers to achieving Acquisition Reform and recommendations for improvements. Most of these dealt with the need for additional training and education, the need for increased communications, and resistance to change.

Industry is partnering with the DoN Acquisition Reform Office to create and deploy training. The instructor for one of your sessions here today is from the American Management Center, Inc., who has supported the Navy-Marine Corps team in learning how to develop performance-based RFPs.

Georgia Tech, who has a booth here today, partnered with the National Center for Advanced Technologies and Texas Instruments to develop IPPD tool workshops, an awareness course for senior leaders, and a video series for just-in-time training. AMCI's Performance-Based RFP course and the NCAT/Georgia Tech/TI team's IPPD awareness course are downloadable from our Home Page. We've brought you today a packet of information that we hope will prove beneficial to you. In this package is a guide to change elements that are part of Acquisition Reform. In brackets following each change element are citations for your further reference. We have also enclosed pertinent web page addresses and two CDs jammed full of second and third level information on these change elements. There's a copy available for each of you as you leave.

Resistance to change is hard to overcome. But like in the story of the Little Prince, times are changing. A directive from the Deputy Secretary of Defense issued last week, calls for a fully digital environment in all acquisition program and support offices. It charges PMs to establish a data management system and appropriate digital environment that allows every activity involved

with the program through out its total life cycle to exchange data digitally. The line is drawn. By the end of 2002, the overwhelming majority of DoD acquisition and logistics operations should be based on digital methodologies and products.

Even as we speak, in Washington, the Defense Systems Affordability Council (DSAC), headed by Noel Longuemare, the Principal Deputy Undersecretary of Defense for Acquisition and Technology, is setting up a panel to search for new ways to make weapons less expensive to maintain. Of our total Department of Defense budget, 28% goes to Acquisition Costs, 12% to Operations Cost and 60% to Logistics Support Costs. Let me give you some figures to understand the scope of this 60%. DoD has 740,000 maintenance personnel who service over 100,000 Ground Combat / Tactical Vehicles, 1,000 strategic missiles, 16,000 Aircraft and Helicopters, and 520 ships. Overall logistics infrastructure costs are \$13.6B.

The DSAC replaces the former Defense Manufacturing Council. In addition to Longuemare, it is comprised of the DoD Comptroller, the Service acquisition executives, the deputy under secretaries for logistics and acquisition reform, and Industry representatives. That's the meeting I would be attending if I wasn't here with you. This is an important DoD effort. There are three thrust areas for 1997-98.

The first is to continue the momentum of Acquisition Reform — integrating initiatives and addressing implementation issues.

Our current incentives and competition of Operations and Support reduction do not have the same credibility as acquisition cost and performance. Contractor support opportunities need to be leveraged. Initiatives underway such as CAIV, PBBE, Open Systems Architecture and F3I (form, fit and function) need to be integrated with a focus on downstream costs. We don't fully understand the interrelation of these initiatives. We need to develop a form, fit and function interface definition during acquisition which allows subsequent competition for spares, support, and upgrades. We need to examine the role of interface standards and technical data in PBBE and how to affect fielded systems and achieve modernization through spares.

The second thrust is to conduct an integrated acquisition-logistics attack on life cycle costs — including increasing emphasis on LCC during acquisition and launching new activities to reduce Operation and Support costs for fielded systems.

The emphasis to date has been primarily on the acquisition phase. Management responsibility for LCC must occur throughout the life cycle. We need better visibility of TOC, supported by accounting systems for use in management decisions. We need to have the ability to trade R&D, Procurement, and Operations and Maintenance funds to reduce life cycle costs. We need greater funding flexibility, including the ability to trade logistics and performance requirements.

The third thrust is to shorten the time required to put needed products and services into the field — for both new systems and fielded systems.

We need to learn how to exploit new industry capabilities for fast development. We need to make tradeoffs among performance, development time, development cost, acquisition and risk.

The DSAC will focus on removing constraints, providing enablers, creating incentives and developing measurement and feedback loops. There is a lot of work in front of us. That's "us" in the largest sense. If you're flexible, receptive to change, and can provide high quality products and quick response at an affordable cost, it's a good time to be in Industry.

I'd like to close with a Sufi Tale. Sufi are a Middle Eastern religious sect that teach psychological insights through short stories. The central character is known as Nasrudin — the wise fool. This story goes that one day Nasrudin was walking down a country road and looked ahead of him and saw a band of horsemen which he thought were thieves. He immediately ran to the side of the road and jumped over a hedgerow to hide. The horsemen saw Nasrudin in the distance and thought he had fallen over the hedgerow, so they quickly galloped down the road to where Nasrudin lay in the grass and asked if he was hurt and could they help him. They also asked "Why are you here?" Nasrudin got up somewhat unsettled and responded: "Well, sirs, if you must know, I am here because of you, and you are here because of me."

What we can learn from this, I offer, is that we are all in this together to provide the best defense of our nation that is possible under the constraints we are given. We need each other. We

need to talk and understand; we need to collaborate and build trust. The way I see it, Acquisition Reform is really the best business practices possible, but to achieve these it takes each and every one of us thinking, doing, working, and risking to support the needs of our Marines and sailors.